
Leominster Retirement System



Actuarial Valuation
January 1, 2004

STONE CONSULTING, INC.

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December 21, 2004

Leominster Retirement Board
City Hall, Room 15
25 West Street
Leominster, MA 01453

Dear Leominster Retirement Board:

Stone Consulting, Inc. has performed a January 1, 2004 actuarial valuation of the Leominster Retirement System. This valuation and report was prepared using generally accepted actuarial principles and practices and meets the parameters set by the Governmental Accounting Standards Board Statement (GASB) No. 25. To the best of our knowledge, this report is complete and accurate, and the assumptions used represent our best estimate of anticipated experience of the system.

As part of performing the valuation, Stone Consulting, Inc. was furnished member data by the Leominster Retirement System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary. In addition, the administrative staff furnished financial statements that were not audited by the actuary or by the plan's auditors.

The funding objective of the plan is to fully fund the system while attempting to maintain a stable contribution amount for the upcoming fiscal year that is consistent with prior funding schedules. Additional funding is available this year so the system has been able to shorten the funding schedule. Leominster is taking a proactive stance towards the recent GASB statement regarding accounting for post-employment medical benefits. By enabling the shorter funding schedule, the City will have greater flexibility to deal with the financial implications of post-employment medical benefits.

We anticipate over time that the contribution level to decrease as a percentage of payroll. The contribution rate is determined by adding the normal cost plus an amortization of the unfunded actuarial accrued liability. The normal cost is expected to remain at a level percentage of payroll. The length of the funding schedule contained in this actuarial valuation report is twelve years (fully funded by 2017) and the amortization increase is 2.5% per year. The amortization increase cannot exceed 4.5% annually. The maximum length of the funding schedule is until fiscal 2028. These limits are contained in Chapter 32 of the Massachusetts General Laws.

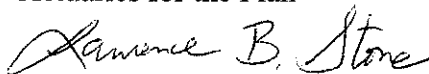
The contribution amount for Fiscal Year 2006 is \$4,648,322 that is \$824,296 greater than the planned 2006 contribution. The Leominster Retirement Board conducted the prior actuarial valuation in 2001. PERAC and GASB guidelines suggest valuations be conducted at least biennially.

We are pleased to present the results of this valuation. If the Retirement Board has any questions on the content of this report, we would be glad to respond.

Respectfully submitted,

STONE CONSULTING, INC.

Actuaries for the Plan



Lawrence B. Stone

Member, American Academy of Actuaries

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LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

SECTION I

MANAGEMENT SUMMARY

INTRODUCTION

This report presents the results of the actuarial valuation of the Leominster Retirement System. The valuation was performed at the request of the Retirement Board as of January 1, 2004 for the purpose of determining the contribution requirement for Fiscal Year 2006.

The valuation was based on member data as of January 1, 2004 supplied by the Retirement Board. Asset information as of January 1, 2004 was provided in financial statements prepared by the Retirement Board. The provisions reflected in the valuation are based on Chapter 32 of the General Laws of the Commonwealth of Massachusetts and related statutes.

The recommended contribution amount for Fiscal Year 2006 is \$4,648,322. The expected contribution amount prior to the new valuation results, for Fiscal Year 2006, is \$3,824,026. The funding schedule is twelve years in length with a 2.5% amortization. The maximum funding schedule length allowed by Chapter 32 of the Massachusetts General Laws is 23 years. The maximum amortization increase allowed is 4.5%. The Fiscal Year 2006 contribution is \$824,296 more than the planned 2006 contribution. The City has indicated that funding is available for this significant contribution increase.

	January 1, 2001 Valuation	January 1, 2004 Valuation
Contribution Fiscal 2006	\$3,824,026	\$4,648,322
Funding Schedule Length	23 years	12 years
Amortization Increase	2.5%	2.5%
Funding Ratio	69%	67%

The interest rate assumption of 8.0% is the same assumption that were used in the 2001 actuarial valuation while the 4.75% salary increase assumption is .25% less than the 5.0% assumption used in the 2001 actuarial valuation.

The funding level of the Leominster Retirement System is 67% compared to 69% at the time of the prior valuation of January 1, 2001. Over the three-year period between the valuations, there was an actuarial asset loss of \$5.1 million due to the actual return being lower than the expected return on assets.

In the report are exhibits in which the demographic information, actuarial results, and actuarial assumptions, cost methods and techniques are given in greater detail.

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

SECTION II

DEMOGRAPHIC INFORMATION

Members *

- *Actives*

a. Number	613	0.5%
b. Annual Compensation	\$20,658,391	13.6%
c. Average Annual Compensation	\$33,700	13.1%
d. Average Attained Age	45.4	2.5%
e. Average Past Service	10.2	6.3%

- *Retired, Disabled and Beneficiaries*

a. Number	369	0.5%
b. Total Annual Retirement Allowance excluding State-reimbursed COLA	\$4,894,305	21.0%

- *Inactives*

a. Number	41	-43.1%
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*In parentheses is the percentage increase/decrease from the January 1, 2001 valuation.

Payroll has increased only 13.6% over the three-year period. Average annual compensation increased 13.1% over the same period (a 4.2% annual rate). We use average annual compensation as the measure that is most accurate in reflecting salary increase growth. This growth is in line with the projected 4.75% salary increase assumption. In consultation with the Board, using a 4.75% salary increase assumption is consistent with anticipated salary increase growth. It should be noted that the assumption includes not only general salary increases but also the impact of steps, promotions and equity adjustments.

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

VALUATION METHODOLOGY

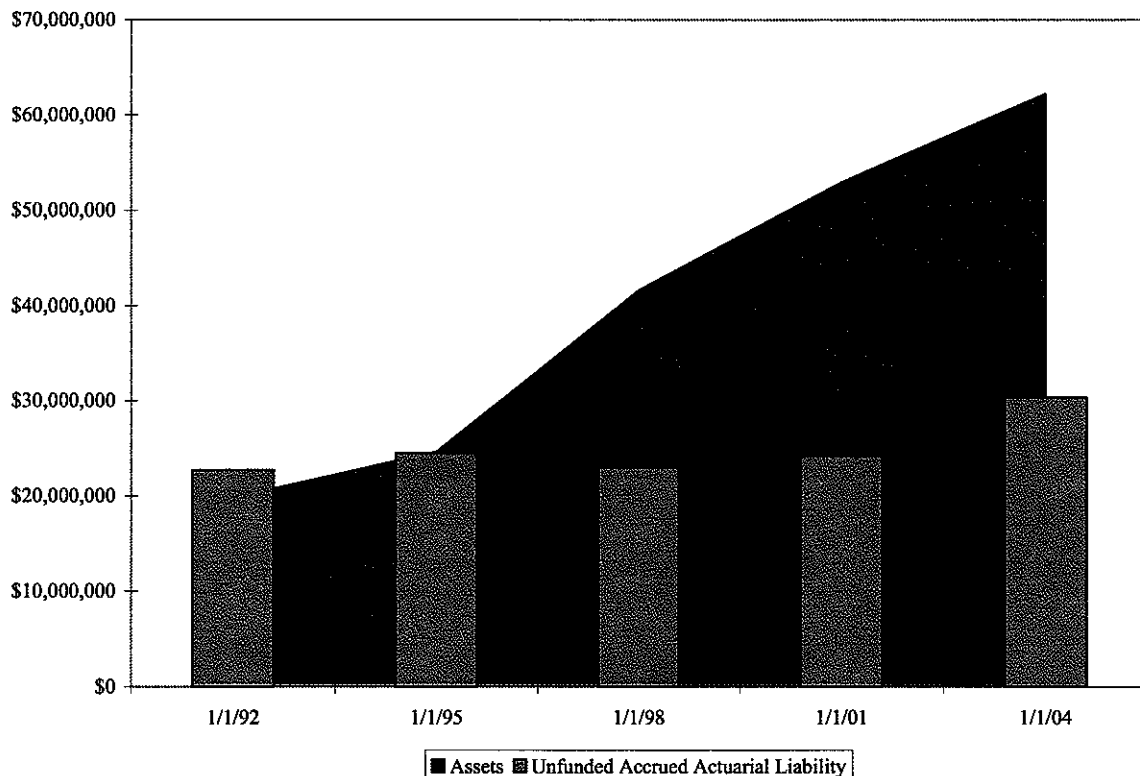
Stone Consulting, Inc. used the Entry Age Normal actuarial funding method in this actuarial valuation. The use of the Entry Age Normal actuarial funding method is consistent with the requirements of Chapter 32 of the Massachusetts General Laws.

ACTUARIAL ACCRUED LIABILITY AND FUNDED STATUS

Active Actuarial Accrued Liability	\$	47,025,576
Retiree, Inactive, Survivor and Beneficiary		
Actuarial Accrued Liability		<u>45,533,206</u>
Total Actuarial Accrued Liability (AAL)	\$	92,558,782
Actuarial Value of Assets (AVA)	\$	<u>62,213,772</u>
Unfunded Actuarial Accrued Liability	\$	30,345,010
Funding Ratio (AVA / AAL)		67%

Actuarial Accrued Liability (AAL) is the “price” of benefits attributable to benefits earned in past years. The total AAL is \$92,558,782. This along with an actuarial value of assets of \$62,213,772 produces a funded status of 67%. This compares to a funding ratio of 69% in the 2001 valuation.

The chart below is a history of the unfunded actuarial accrued liability and the actuarial value of over the course of the past five actuarial valuations.



LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

NORMAL COST

Gross Normal Cost	\$	2,659,937
Employees Contribution		<u>1,697,638</u>
Net Normal Cost	\$	962,299
Adjusted to Beginning of Fiscal Year 2006	\$	69,372
Administrative Expense		<u>138,000</u>
Adjusted Net Normal Cost With Admin. Expense	\$	1,169,671

The gross normal cost (GNC) is the "price" of benefits accruing in the current year. The GNC is \$2,659,937. The GNC is offset by estimated employee contributions of \$1,697,638, resulting in a net normal cost (NNC) of \$962,299. The Retirement Board estimated an administrative expense budget for Fiscal Year 2006 of \$138,000. The net normal cost is adjusted to the beginning of the fiscal year and the administrative expense of \$138,000 is added. The sum of the net normal cost and the administrative expense is the net employer normal cost.

CONTRIBUTION

Adjusted Net Employer Normal Cost for Fiscal 2006	\$	1,169,671
Amortization		<u>3,478,651</u>
Total Appropriation required for Fiscal 2006	\$	4,648,322

The contribution is composed of the normal cost, and the amortization of the actuarial accrued unfunded liability adjusted by the administrative expense assumption.

The contribution amount for Fiscal 2006 is \$4,648,322. The funding schedule is presented on page 9. The schedule's length is twelve years, eleven years less than the maximum allowed under Chapter 32. In developing the funding schedule, we used a fresh start approach in which the unfunded actuarial accrued liability, with the exception of the liability associated with the early retirement incentive, is reamortized instead of maintaining the existing amortization amount and separately amortizing the actuarial gain or loss. The use of a fresh-start approach results in a funding schedule in which the changes in contribution amounts from year to year are more consistent. The amortization increase is 2.5%. The schedule's amortization increase remains the same as the prior 2001 valuation while the length has been shortened by eleven years.

Allocation of Contribution

PERAC notified the Retirement Board on December 5, 2003 of the allocation of the contribution between the City and various governmental units in those percentages reported below:

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

Unit	Percent	Estimated 2006 Allocation
City	92.14%	\$4,282,964
Housing Authority	2.91%	135,266
Water Enterprise	3.62%	168,269
Sewer Services	1.33%	61,823
TOTAL:	100.00%	\$4,648,322

The percentage allocation were based on compensation rates of September 2003. The Fiscal 2006 contribution using the above allocation, would be what is shown in the right column, Estimated 2006 Allocation. PERAC will inform the Retirement Board of the new allocations based on the compensation rates reported as of September 2004.

Timing of Contributions

Employer contributions are assumed to be made at the beginning of the fiscal year.

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

SECTION II (Continued)

ASSUMPTIONS AND METHODOLOGY SUMMARY

The principal actuarial assumptions used in this valuation are the same as the assumptions used in the previous valuation, except where noted, and are summarized in the following table:

<u>Assumption</u>	<u>January 1, 2004 Valuation</u>
Interest Rate	8.00%
Salary Increase	4.75% (5.00% prior valuation)
COLA	3% of \$12,000
COLA Frequency	Granted every year
Mortality	RP-2000 table. For members retired under an Accidental Disability (job-related), 40% % of deaths are assumed to be from the same cause as the disability. Disabled mortality RP2000 table, ages set forward 7 years.
Overall Disability	<u>Groups 1 and 2</u> 45% ordinary disability 55% accidental disability <u>Group 4</u> 10% ordinary disability 90% accidental disability
Retirement Rates	<u>Groups 1 and 2</u> Ages 55 – 65 <u>Group 4</u> Ages 50 – 65
Administrative Expense	\$138,000 budget estimated for FY 2006 provided by Leominster Contributory Retirement Board.

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

SECTION II (Continued)

MEMBERSHIP DATA

The data was supplied by the Leominster Retirement Board. The data was checked under broad parameters of reasonableness. With the assistance of the staff of the Leominster Retirement Board, we were able to develop a database sufficient for valuation purposes.

ASSETS

a.	Cash, PRIT cash and Short-term Securities	\$	1,226,505.13
b.	Pooled Domestic Equity		2,984,647.53
c.	Pooled International Equity		7,216,719.10
d.	Pooled Global Equity		23,737,881.16
e.	Pooled Domestic Fixed Income		27,048,006.58
f.	Subtotal	\$	<u>62,213,759.50</u>
g.	Interest Due and Accrued	\$	12.99
h.	Accounts Receivable		-
i.	Accounts Payable		-
j.	Subtotal	\$	<u>12.99</u>
k.	Market Value of Assets [(f) + (j)]	\$	62,213,772.49

We were furnished with the System's annual report by the Board. The market value of assets as of December 31, 2003 (adjusted for interest due and accrued, payables and receivables) is \$62,213,772.49.

Assets are invested 2.0% in cash and short-term securities, 55% in equities, 43% in fixed income. The 8.0% interest rate assumption is somewhat high in light of the asset mix. The Board expects to make a prospective change to the asset mix. If the Board does not change the asset mix, we recommend use of a 7.75% interest rate. This would increase the unfunded actuarial accrued liability by \$2.5 million and the Fiscal 2006 contribution by \$416,000.

LEOMINSTER RETIREMENT SYSTEM FUNDING SCHEDULE

Fiscal Year	Normal Cost	Unfunded Liability	Funding Amortization of UAL	Schedule Contribution
2006	1,169,671	31,826,513	3,478,651	4,648,322
2007	1,225,230	30,615,691	3,565,618	4,790,848
2008	1,283,429	29,214,079	3,654,758	4,938,187
2009	1,344,392	27,604,066	3,746,127	5,090,519
2010	1,408,250	25,766,574	3,839,780	5,248,031
2011	1,475,142	23,680,937	3,935,775	5,410,917
2012	1,545,211	21,324,776	4,034,169	5,579,381
2013	1,618,609	18,673,855	4,135,023	5,753,632
2014	1,695,493	15,701,938	4,238,399	5,933,892
2015	1,776,029	12,380,622	4,344,359	6,120,388
2016	1,860,390	8,679,164	4,452,968	6,313,358
2017	1,948,759	4,564,292	4,564,292	6,513,051
2018	2,041,325	-	-	2,041,325

Amortization of Unfunded Liability as of July 1, 2005

Year	Type	Original Amort. Amount	Percentage Increasing	Original # of Years	Current Amort. Amount	Years Remaining
2006	Fresh Start	3,478,651	2.50%	12	3,478,651	12

Notes on Amortization of Unfunded Liability

Year is the year the amortization base was established.

Type is the reason for the creation of the base. Examples are Gain/(Loss) or Fresh Start.

Original Amortization Amount is the annual amortization amount when the base was established

Percentage Increasing is the percentage that the Original Amortization Amount increases per year

Original # of Years is the number of years over which the base is being amortized.

Current Amortization Amount is the amortization payment amount for this year.

Years Remaining is the number of years left to amortize the base.

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

SECTION II (Continued)

SUMMARY OF JANUARY 1, 2004 VALUATION

	January 1, 2004 Valuation	
Funding		
• Contribution for Fiscal 2006		\$4,648,322
• Contribution for Fiscal 2006 based on current schedule		\$3,824,026
Members *		
• <i>Actives</i>		
a. Number	613	0.5%
b. Annual Compensation	\$20,658,391	13.6%
c. Average Annual Compensation	\$33,700	13.1%
d. Average Attained Age	45.4	2.5%
e. Average Past Service	10.2	6.3%
• <i>Retired, Disabled and Beneficiaries</i>		
a. Number	369	0.5%
b. Total Annual Retirement Allowance excluding state-reimbursed COLA	\$4,894,305	21.0%
• <i>Inactives</i>		
a. Number	41	-43.1%
Normal Cost		
a. Total Normal Cost as of January 1, 2004		\$2,659,937
b. Less Expected Members' Contributions		<u>1,697,638</u>
c. Normal Cost to be funded by the Municipality		\$962,299
d. Adjustment to July 1, 2005		69,372
e. Administrative Expense Assumption		<u>138,000</u>
f. Normal Cost Adjusted to July 1, 2005		\$1,169,671

*Percentage increase/decrease from the January 1, 2001 valuation.

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

SUMMARY OF JANUARY 1, 2004 VALUATION (Continued)

	<u>January 1, 2004 Valuation</u>
Actuarial Accrued Liability as of January 1, 2004	
a. Active Members	\$47,025,576
b. Inactive Members	484,183
c. Retired Members and Beneficiaries	<u>45,049,023</u>
d. Total	\$92,558,782
 Unfunded Actuarial Accrued Liability	
a. Actuarial Accrued Liability as of January 1, 2004	\$92,558,782
b. Less Actuarial Value of Assets as of January 1, 2004	<u>62,213,772</u>
c. Unfunded Actuarial Accrued Liability as of Jan. 1, 2004	\$30,345,010
d. Adjustment to July 1, 2005	<u>1,481,503</u>
e. Unfunded Actuarial Accrued Liability as of July 1, 2005	\$31,826,513

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

SECTION II (CONTINUED)

DISCLOSURE INFORMATION UNDER GASB STATEMENT 25

Schedules of Funding Progress

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll (B-A)/C
	A	B	B-A	A/B	C	
1/1/2004	\$62,214	\$92,559	\$30,345	67%	\$20,658	147%
1/1/2001	\$52,941	\$77,053	\$24,112	69%	\$18,178	133%

Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	1/1/2004
Actuarial cost method	Entry Age Normal
Amortization method	Approximate level percent of payroll Closed
Remaining amortization period	12 years
Asset valuation method	Market value adjusted by payables and receivables.

Actuarial assumptions:

Investment Rate of Return	8.00% per year
Projected Salary Increases	4.75% per year

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

PERAC INFORMATION DISCLOSURE

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2004

The normal cost for employees on that date was:

The normal cost for the employer was: 1,697,638 8.2% of payroll
\$962,299 4.7% of payroll

The actuarial liability for active members was:

The actuarial liability for retired members was (includes inactives): \$47,025,576
\$45,533,206
Total actuarial accrued liability: \$92,558,782
System assets as of that date: 62,213,772
Unfunded actuarial accrued liability: \$30,345,010

The ratio of system's assets to total actuarial liability was:

67%

As of that date the total covered employee payroll was

\$20,658,391

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
Rate of Salary Increase: 4.75% per annum

SCHEDULE OF FUNDING PROGRESS (Dollars in \$000's)

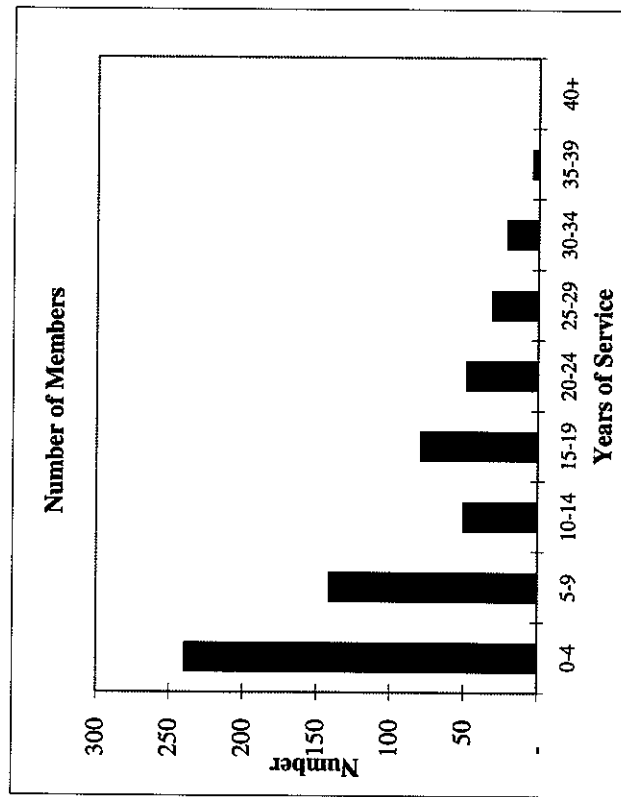
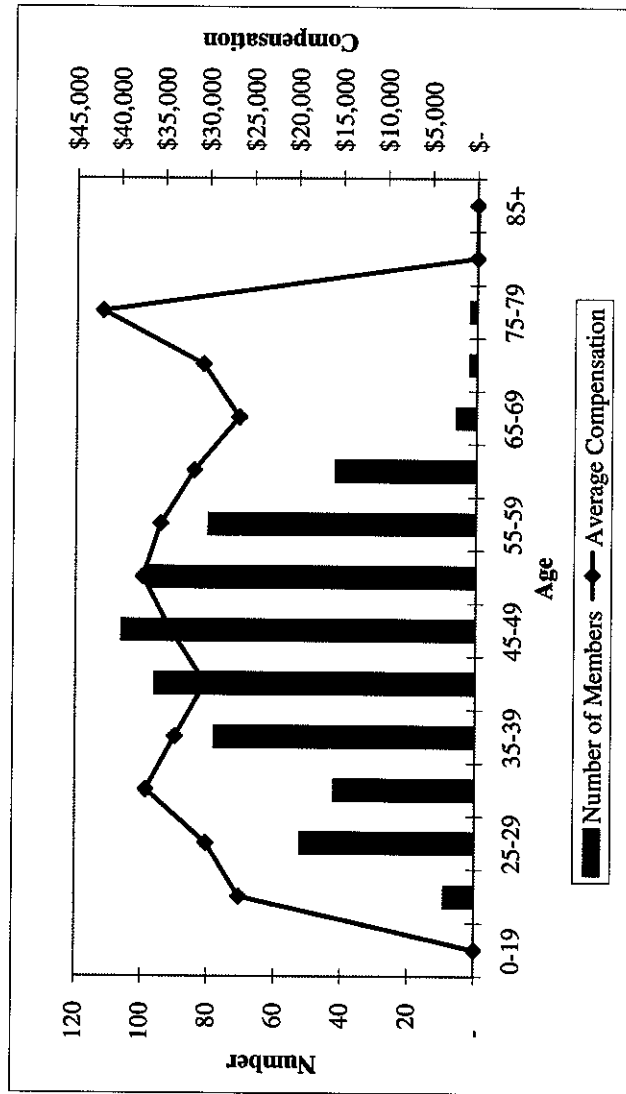
Actuarial Valuation Date	Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a % of Covered Payroll ((b-a)/c)
1/1/2004	\$62,214	\$92,559	\$30,345	67%	\$20,658	147%
1/1/2001	\$52,941	\$77,053	\$24,112	69%	\$18,178	133%

Distribution of Plan Members

STONE CONSULTING, INC.

Leominster Retirement System
Distribution of Plan Members as of January 1, 2004
Active Members

AGE	0-4 Years	5-9 Years	10-14 Years	15-19 Years	20-24 Years	25-29 Years	30-34 Years	35-39 Years	40 + Years	Total	Total Compensation	Average Compensation
0-19	-	-	-	-	-	-	-	-	-	-	\$	\$
20-24	9	-	-	-	-	-	-	-	-	9	237,864	26,429
25-29	48	4	-	-	-	-	-	-	-	52	1,568,838	30,170
30-34	26	16	-	-	-	-	-	-	-	42	1,552,727	36,970
35-39	33	24	6	15	-	-	-	-	-	78	2,630,182	33,720
40-44	41	22	7	20	6	-	-	-	-	96	2,904,769	30,258
45-49	33	31	8	11	16	7	-	-	-	106	3,634,232	34,285
50-54	22	24	10	10	11	16	5	-	-	98	3,664,518	37,393
55-59	18	13	10	13	7	3	16	-	-	80	2,831,316	35,391
60-64	6	7	8	7	6	5	-	3	-	42	1,328,880	31,640
65-69	2	-	-	3	1	-	-	-	-	6	159,741	26,624
70-74	-	-	1	-	-	-	-	1	-	2	61,326	30,663
75-79	1	-	-	-	1	-	-	-	-	2	83,999	42,000
80-84	-	-	-	-	-	-	-	-	-	-	-	-
85+	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	239	141	50	79	48	31	21	4	-	613	\$ 20,658,391	\$ 33,700

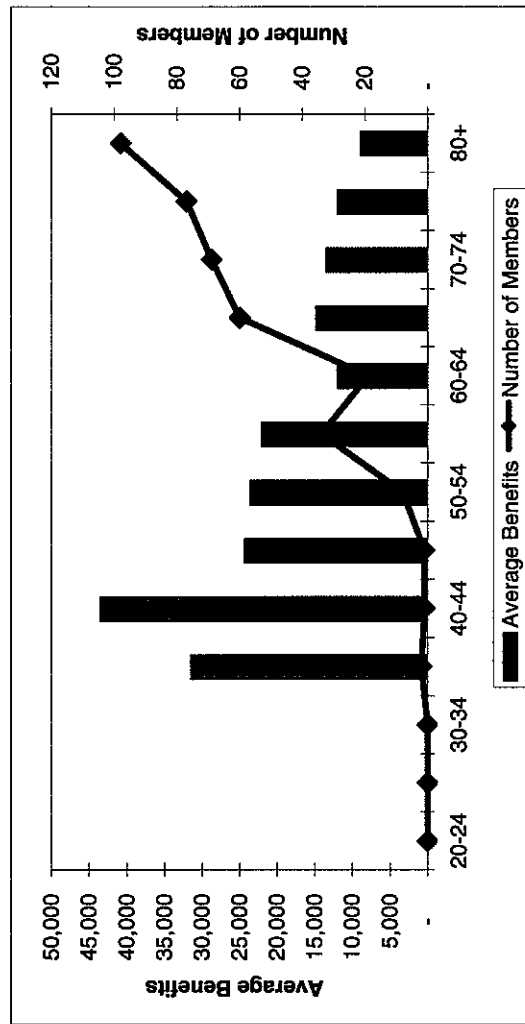


Leominster Retirement System **Distribution of Plan Members as of January 1, 2004** **Retired Members**

<u>Disabled Member</u>			<u>Retired Members and Beneficiaries</u>	
Age	Number	Average Benefit	Number	Average Benefit
20-24	-	-	-	-
25-29	-	-	-	-
30-34	-	-	-	-
35-39	1	29,517	1	33,331
40-44	1	43,474	-	-
45-49	1	24,266	-	-
50-54	4	23,719	-	-
55-59	7	18,663	4	23,276
60-64	2	17,358	27	22,895
65-69	5	21,105	17	11,336
70-74	7	19,479	55	14,208
75-79	5	20,567	62	12,751
80+	6	15,096	72	11,334
TOTAL	39	\$ 20,328	330	\$ 12,429
				\$ 4,101,528

<u>Total</u>			<u>Retired Members and Beneficiaries</u>	
Age	Number	Average Benefit	Number	Average Benefit
20-24	-	-	-	-
25-29	-	-	-	-
30-34	-	-	-	-
35-39	2	31,424	-	-
40-44	1	43,474	-	-
45-49	1	24,266	-	-
50-54	8	23,497	-	-
55-59	34	22,024	-	-
60-64	19	11,970	-	-
65-69	60	14,783	-	-
70-74	69	13,433	-	-
75-79	77	11,933	-	-
80+	98	8,845	-	-
TOTAL	369	\$ 13,264	330	\$ 12,429
				\$ 4,894,305

Benefits shown are net of State reimbursed COLA.



LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods

1. **Actuarial Cost Method**

The Entry Age Normal Actuarial Cost Method has been used in this valuation. Under this method, the normal cost is the amount calculated as the level percentage of compensation necessary to fully fund the prospective benefits from each member's entry age to retirement age.

The actuarial accrued liability represents the theoretical accumulation of all prior years' normal costs for the plan members as if the program had always been in effect. The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over plan assets.
2. **Asset Valuation Method**

Market value of assets (adjusted by payables and receivables).
3. **Fiscal Year Adjustment**

The actuarial results are adjusted by the valuation interest rate and salary scale to the beginning of Fiscal Year 2006. The unfunded actuarial accrued liability is rolled forward with normal cost and further adjusted by anticipated contributions and interest.

Actuarial Assumptions

1. **Investment Return**

8.00% per year net of investment expenses.
2. **Salary Increases**

4.75% per year (5.00% per year, prior valuation).

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

3. Withdrawal Prior to Retirement The rates shown at the following sample ages illustrate the withdrawal assumption.

<i>Age</i>	Rate of Withdrawal	
	<i>Group 1 and 2</i>	<i>Group 4</i>
20	37.51%	3.15%
25	28.23	2.85
30	17.35	2.48
35	10.07	1.88
40	7.21	0.84
45	5.68	0.06
50	4.57	0.00
55	0.00	0.00

4. Disability Prior to Retirement The rates shown at the following sample ages illustrate the assumption regarding the incidence of disability:

<i>Age</i>	Rate of Disability	
	<i>Group 1 and 2</i>	<i>Group 4</i>
20	0.03%	0.10%
25	0.04	0.12
30	0.06	0.18
35	0.08	0.26
40	0.12	0.38
45	0.18	0.58
50	0.31	0.98
55	0.50	1.60
60	0.61	2.06

Disability is assumed to be 45% ordinary and 55% accidental for Group 1 and 2 and 10% ordinary and 90% accidental for Group 4.

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

5. Rates of Retirement

The rates shown at the following ages illustrate the assumption regarding the incidence of retirement, once the member has achieved 10 years of service:

<i>Age</i>	Rates of Retirement	
	<i>Group 1 and 2</i>	<i>Group 4</i>
50	N/A	2.0%
51	N/A	2.0
52	N/A	2.0
53	N/A	2.0
54	N/A	2.0
55	10.0%	5.0
56	3.0	5.0
57	3.0	5.0
58	3.0	5.0
59	5.0	5.0
60	5.0	10.0
61	5.0	10.0
62	10.0	20.0
63	10.0	20.0
64	10.0	20.0
65	100.0	100.0

6. Mortality

For retirees, the RP-2000 for Healthy Retirees mortality table (sex-distinct). For actives, the RP-2000 for Employees mortality table (sex-distinct).

7. Disabled Life Mortality

The RP-2000 mortality table for healthy annuitants (sex-distinct) set-forward by 7 years. Death is assumed to be due to the same cause as the disability 40% of the time.

8. Regular Interest Rate Credited to Annuity Savings Account

2% per year.

9. Family Composition

Members assumed married with 2 dependent children – one male and one female both age 15; age difference between member and spouse assumed to be 3 years (the male being the older).

10. Cost-of-Living Increases

A 3% COLA on the first \$12,000 of a member's retirement allowance is assumed granted every year.

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

ACTUARIAL METHODS AND ASSUMPTIONS (Continued)

- | | |
|-----------------------------|---|
| 11. Administrative Expenses | Estimated budgeted amount of \$138,000 for the Fiscal Year 2006 excluding investment management fees and custodial fee is added to the Normal Cost. |
| 12. Step Increases | Step increases are assumed to be part of the salary increase assumption. |
| 13. Credited Service | Service between date of hire and date of membership is assumed to be purchased by all members. |
| 14. Contribution Timing | Contributions are assumed to be at the beginning of the fiscal year (July 1). |
| 15. Valuation Date | January 1, 2004. |

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

SUMMARY OF PRINCIPAL PROVISIONS

1. Participant Participation is mandatory for all full-time employees whose employment commences before age 65. There are three classes of members in the retirement system:

Group 1: general employees

Group 2: employees in specified hazardous occupations (e.g., electricians)

Group 4: police and firefighters

2. Member Contributions Member contributions vary depending upon date hired as follows:

Date of Hire	Member Contribution Rate
Prior to 1975	5% of Pay
1975 - 1983	7% of Pay
1984 - June 30, 1996	8% of Pay
After June 30, 1996	9% of Pay

Members hired after 1978 contribute an additional 2% of pay over \$30,000.

3. Pay
 - a. Pay Gross regular compensation excluding bonuses, overtime, severance pay, unused sick pay, and other similar compensation.
 - b. Average Pay The average of pay during the 3 consecutive years that produce the highest average or, if greater, during the last three years (whether or not consecutive) preceeding retirement.
4. Credited Service Period during which an employee contributes to the retirement system plus certain periods of military service and "purchased" service.

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

SUMMARY OF PRINCIPAL PROVISIONS (Continued)

5. Service Retirement

- a. Eligibility Completion of 20 years of credited service; otherwise, attainment of age 55 and completion of 10 years of credited service. If hired prior to 1978, or a member of Group 4, attainment of age 55.
- b. Retirement Allowance Determined as the product of the member's benefit percentage, average pay and credited service, where the benefit percentage is shown below (maximum allowance of 80% of average pay):

Benefit Percentage	Group 1	Group 2	Group 4
2.5%	65+	60+	55+
2.4	64	59	54
2.3	63	58	53
2.2	62	57	52
2.1	61	56	51
2.0	60	55	50
1.9	59	N/A	49
1.8	58	N/A	48
1.7	57	N/A	47
1.6	56	N/A	46
1.5	55	N/A	45

In addition, veterans receive an additional \$15 per year for each year of credited service up to 20 years

6. Deferred Vested Retirement

- a. Eligibility Completion of 10 years of credited service (for elected and appointed members, 6 years in the event of involuntary termination).

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

SUMMARY OF PRINCIPAL PROVISIONS (Continued)

- b. Retirement Allowance Determined in the same manner as 5b. with the benefit payable at age 55, unless deferred until later at the member's option.
- Member contributions with interest may be withdrawn after separation from service. If contributions are withdrawn, eligibility for retirement benefits is forfeited. Members hired before 1984 receive full interest on contributions that are withdrawn; otherwise, one half the credited interest is provided for members who withdraw after 5 but before 10 years of credited service and no interest is provided for withdrawals before 5 years of credited service.
7. Ordinary Disability Retirement
- a. Eligibility Non-job related disability after completion of 10 years of credited service.
- b. Retirement Allowance Determined in the same manner as 5b. with the benefit payable immediately. Veterans receive 50% of pay (during final year) plus an annuity based on accumulated member contributions with interest.
8. Accidental Disability Retirement
- a. Eligibility Disabled as a result of an accident in the performance of duties. No age or service requirement.
- b. Retirement Allowance 72% of pay plus an annuity based on accumulated member contributions with interest. Also, a dependent's allowance per year for each child. Total allowance not to exceed 100% of pay (75% for members hired after 1987).
9. Non-Occupational Death
- a. Eligibility Dies while in active service, but not due to occupational injury. 2 years of service.

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

SUMMARY OF PRINCIPAL PROVISIONS (Continued)

- b. Retirement Allowance Benefit as if Option C had been elected (see below). Minimum monthly benefits provided as follows: spouse - \$250, first child - \$120, each additional child - \$90.

- 10. Occupational Death
 - a. Eligibility Dies as a result of an occupational injury.

 - b. Benefit Amount Same as 8b.

- 11. Cost-of-Living Increases An increase of up to 3% applied to the first \$12,000 of annual benefit. Funded by the Municipality from Fiscal Year 1999. Percentage increase is voted on each year by the Retirement Board. Cost-of-living increases granted during Fiscal Year 1982 through Fiscal 1998 are reimbursed by the Commonwealth.

- 12. Optional Forms of Payment
 - a. Option A Allowance payable monthly for the life of the member.

 - b. Option B Allowance payable monthly for the life of the member with a guarantee of remaining member contributions with interest.

 - c. Option C Allowance payable monthly for the life of the member with 66-2/3% continuing to the member's beneficiary upon the member's death. If the beneficiary predeceases the member, the allowance amount "pops up" to the non-reduced amount.

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

SECTION II (Continued)

GLOSSARY OF TERMS

1. Present Value of Benefits Represents the dollar value today of all benefits expected to be earned by current members if all actuarial assumptions are exactly realized.
2. Actuarial Cost Method The procedure that is used to allocate the present value of benefits between the liability that is attributable to past service (Actuarial Accrued Liability) and that attributable to future service.
3. Actuarial Assumptions Estimates are made as to the occurrence of certain events that determine the level of benefits to be paid and how long they will be provided. The more important actuarial assumptions include the investment return on assets, salary increases and the rates of turnover, disability, retirement and mortality.
4. Actuarial Accrued Liability The portion of the Present Value of Benefits that is attributable to past service.
5. Normal Cost The portion of the Present Value of Benefits that is attributable to benefits to be earned in the coming year.
6. Actuarial Assets Market value of assets of the funds, adjusted by payables and receivables, set aside through employer and member contributions to provide for benefits.
7. Unfunded Actuarial
Accrued Liability That portion of the Actuarial Accrued Liability not covered by System Assets.
8. PERAC Public Employee Retirement Administration Commission, a division of the State government which has regulatory authority over the administration of the retirement system.
9. PRIT Pension Reserves Investment Trust Fund is the state controlled and administered fund for the investment of assets for members of the retirement system.

LEOMINSTER CONTRIBUTORY RETIREMENT SYSTEM

GLOSSARY OF TERMS (Continued)

10. GASB Government Accounting Standards Board (issues guidance for disclosure of retirement system liabilities).